

No part of the candidate evidence in this exemplar material may be presented in an external assessment for the purpose of gaining credits towards an NCEA qualification.

2

91177



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

Level 2 Accounting, 2014

91177 Interpret accounting information for entities that operate accounting subsystems

2.00 pm Wednesday 26 November 2014

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Interpret accounting information for entities that operate accounting subsystems.	Interpret accounting information in depth for entities that operate accounting subsystems.	Interpret accounting information comprehensively for entities that operate accounting subsystems.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

Pull out Resource Booklet 91177R from the centre of this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–11 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Excellence

TOTAL

32

ASSESSOR'S USE ONLY

Refer to **Resource Booklet 91177R** when answering the questions in this booklet.

Brianna owns *Sweetworld*, a retailer of lollies, chocolates, and fudge.

QUESTION ONE

- (a) Refer to **Resources One and Two in Resource Booklet 91177R** to complete the table of analysis measures below. Round your answer to one decimal place where necessary.

Analysis measure	2013	2014
Percentage change in sales	3%	20 %
Mark-up percentage	100%	100%
Gross profit percentage	50%	50 %

WORKING

$$(1) \frac{\text{This - Last}}{\text{Last}} = \frac{2014 - 2013}{2013} = \frac{(480\,000 - 400\,000)}{400\,000} = 0.2 \times \frac{100}{1} = 20\%$$

$$(2) \frac{\text{GP}}{\text{COGS}} = \frac{240}{240} = 1 \times 100 = 100\%$$

$$(3) \frac{\text{GP}}{\text{Sales}} = \frac{240}{480} = 0.5 \times 100 = 50\%$$

At the start of the year ended 31 March 2014, Brianna entered into an agreement with her suppliers for them to supply *Sweetworld* with inventory at a lower cost.

- (b) Justify how this agreement with Brianna's suppliers of inventory has been successful for *Sweetworld*. Include in your answer:
- reference to information from the table in (a) and from **Resource Two**
 - an explanation of the meaning of a mark-up percentage of 100 per cent
 - a description of what an **unchanged mark-up percentage** indicates about the **price** Brianna has charged her customers in 2014, given the agreement she has with her suppliers
 - an explanation of how the unchanged mark-up percentage has contributed to the success of *Sweetworld* in 2014.

The mark-up percentage of 100% tells the owner, Brianna that her business, *Sweetworld* has added 100% of cost price to the cost price to get the selling price in 2013 and 2014.

The agreement Brianna's supplier and Brianna agreed on means that even though mark-up has stayed the same from 2013 and 2014, Brianna is still earning more because of the lower cost of goods sold. Because of the lower inventory price, Brianna's ~~can~~ cost of goods sold decreased and leaving her markup percentage unchanged means the price Brianna is charging to customers is lower. For example, if Brianna bought a lolly from her supplier in 2013 for \$3, she would be selling them at \$6. But in 2014, if the supplier agreed to sell the lolly at \$2 to Brianna Sweetworld, Brianna would be able to pay more inventory from her supplier as now cheaper for each unit of lolly, chocolate or fudge and sell this lolly for \$4 to customers//

Therefore, an unchanged mark-up with a lower cost of goods sold means that Brianna is selling her goods at lower price to customers in 2014 than in 2013//

This unchanged mark-up percentage and lower cost of goods sold has allowed Brianna with success in sales in 2014. Because the inventory Sweetworld is selling is now cheaper, customers will be attracted to this and move away from other suppliers for these lower prices at Sweetworld. Therefore, even though the cost of goods sold in 2014 has increased but this is due to ^{opportunity} having to buy more inventory in 2013 at lower cost price to sell. More customers will shop for lollies, chocolates and fudges at Sweetworld resulting in an increase in sales from \$400 000 in 2013 to \$480 000 in 2014. This success is further evident in the profit for the year which was \$55 000 in 2013 and is now \$59 000 in 2014.

E8

QUESTION TWO

ASSESSOR'S
USE ONLY

- (a) Refer to **Resources One and Two** in **Resource Booklet 91777R** to complete the table below. Round your answer to one decimal place where necessary.

Analysis measure	2013	2014
Distribution cost percentage	10%	10%
Administrative expense percentage	25%	27.1%
Finance cost percentage	1.3%	0.6 %
Net profit percentage	13.8%	12.3 %

WORKING

$$\frac{FC}{Sales} = \frac{3\ 600}{480\ 000} = 0.625 = 0.6\%$$

$$\frac{Profit}{Sales} = \frac{59\ 600}{480\ 000} = 12.29 = 12.3\%$$

Refer to the table above and to **Resources Two and Three** in **Resource Booklet 91777R** to answer the following question.

- (b) Justify whether Brianna should be concerned about the trend in *Sweetworld's* net profit percentage. Include in your answer:
- an explanation of what the trend in *Sweetworld's* net profit percentage means
 - the **main** reason for the trend in the net profit percentage, with an explanation of how the trend occurred
 - an explanation of how and why **finance** costs impacted on the trend in the net profit percentage
 - an explanation of whether the trend in *Sweetworld's* net profit percentage is likely to continue in 2015.

The trend in the *Sweetworld's* net profit percentage means that the net profit percentage has dropped from being at 13.8% in 2013 to 12.3% in 2014. This is an unfavourable trend and means *Sweetworld* has decreased from earning a net profit of 13.8 cents in every \$1 of sales in 2013 to 12.3 cents in every \$1 of sales

in 2014.

ASSESSOR'S
USE ONLY

The main reason for the decrease in net profit percentage from 2013 to 2014 is because of the Administrative Expenses. The administrative expenses increased from \$100 000 to \$130 000 from 2013 to 2014 increasing the administrative expense percentage from 25% in 2013 to 27.1% in 2014. The reason for this rise is because of Brianna having to employ a full time office staff in 2014 due to office-tasks not being completed. This increase \$30 000 in administrative expenses is due to having to pay the new permanent office staff's wages. As a result, the administrative expense went up, so the administrative expense percentage rised. This led to an increase in total expenses percentage (from 36% in 2013 to 38% in 2014) so net profit percentage decreased because more expenses to pay for from sales.

The finance costs decreased from \$5 000 in 2013 to \$3000 in 2014 due to Brianna paying ~~\$5~~ \$35 000 off the loan in 2014. Therefore, because she ~~pay~~ paid some loan off, the interest needed to pay the loan decreased so this decreased the effect of the increase in administrative expenses on net profit percentage. If she had not paid some of the loan off, she would have had a high finance cost on top of the increase in administrative expense which would have a consequence of an even lower net profit than \$59 000. Therefore, the decrease in finance costs in 2014, helped to lessen the effect of increased total expenses percentage and only decreased net profit percentage by 1.5% from 2013 to 2014.

Continued Page 10

E8

QUESTION THREE

ASSESSOR'S
USE ONLY

- (a) Refer to **Resources One and Two** in **Resource Booklet 91777R** to complete the table below. Round your answer to two decimal places.

Analysis measure	2013	2014
Equity ratio	0.79:1	0.85 :1

WORKING

$$\frac{\text{Equity}}{\text{total A.}} = \frac{409\,000}{483\,000} = 0.85$$

Refer to **Resource Two** in **Resource Booklet 91777R** to answer the following.

- (b) Justify why the equity ratio is a good indicator that *Sweetworld* is a financially stable business.
Include in your answer:
- the meaning of the equity ratio in 2014
 - an explanation making it clear what **Brianna** did to influence the **trend** in the equity ratio. The explanation should make reference to both asset AND liability information of *Sweetworld*
 - an explanation of how the trend in *Sweetworld's* equity ratio will be of benefit to Brianna in 2015 if she wants to expand her shop.

The equity ratio of 0.85:1 in 2014 tells Brianna that her business, *Sweetworld* has invested \$0.85 ^{into} of *Sweetworld's* ^{assets} every \$1 of total assets. This is ~~satisfactory~~ because Brianna has shown confidence in *Sweetworld* by contributing ^{to} over half of the total assets and gives her opportunity to borrow more funds if necessary.

~~and~~, investments
With the asset, bank and Brianna's own cash, she has paid off some of the loan in 2014. Bank has decreased by \$6,500 and the loan repayment is \$35,000, therefore, Brianna must have contributed ~~\$28,500~~ to repay loan. Investments have decreased by \$23,000 so Brianna must have contributed some cash (\$⁵15,500) to repay loan. Maybe not all of

the \$23 000 investments and \$6 500 bank was used to repay loan and some was used for cost of goods sold to purchase inventory. But, it is likely that Brianna has had to contribute some of her personal cash into Sweetworld to pay off loan repayment. ~~Total assets have fallen~~ But another reason, ~~Brianna may have been~~ for the decrease in bank account is drawings. But either way, total assets has decreased and total liabilities have decreased which allowed equity to increase, increasing the equity ratio.

(↑ Equity
↓ Assets)
= ↑ E/R

The increasing equity ratio trend will be of benefit to Brianna if she decides to expand Sweetworld in 2015 because she has ~~can~~ financed more than half of Sweetworld's total assets. Therefore, the bank and lenders would have faith in Brianna in being able to repay debts of loan or mortgage for her expansion. If Brianna's equity ratio had been less than ~~her~~ 0.50:1, the banks would not want to take the risk of lending funds for her to expand Sweetworld because the level of risk is high and less likely to be able to pay back. Therefore, increasing equity ratio trend has allowed Brianna with ease if wanting to expand Sweetworld in 2015 by asking lenders //

E8

QUESTION FOUR

ASSESSOR'S
USE ONLY

Refer to **Resource Two** in **Resource Booklet 91177R** and information provided in Question One to answer this question.

Brianna prides herself on the freshness and quality of the fudges she sells in particular. The table below provides information for *Sweetworld*.

Analysis measure	2013	2014
Current ratio	2.11:1	1.89:1
Inventory turnover	30.8 times per year	36.9 times per year

(a) Justify *Sweetworld's* inventory turnover.

Include in your answer:

- an explanation of the meaning of *Sweetworld's* inventory turnover of 36.9 times per year
- an explanation for the trend in the inventory turnover
- an explanation of why it would be expected that shops like *Sweetworld* have an inventory turnover of 30 times per year as a minimum.

The inventory turnover of 36.9 times in 2014 tells Brianna that her business, *Sweetworld* on average has sold through inventory 36.9 times in the year of 2014. //

The trend in the inventory turnover is favourable because it is increasing from 30.8 times in 2013 to 36.9 times in 2014. Favourable because it means, *Sweetworld* is selling more inventory. //

It is expected for *Sweetworld* to have an inventory turnover of at 30 times per year and above because she is selling fudge which is food. Food easily becomes expired and goes off, therefore it is best if fudge is sold as quickly as possible. If the fudge stays on shelves for long time, ~~may~~ will become expired and have to write off as expense, decreasing profitability. With a minimum of 30 times turnover of inventory gives about a turnover every 12 days ($\frac{365}{30}$) which is favourable because this means Brianna is selling her fudge even quicker than this so the fudge is fresh and of high quality. //

(b) Justify how the trend in Sweetworld's inventory turnover also enhances the **liquidity** position of the business.

Include in your answer:

- an explanation of the meaning of a current ratio of 1.89:1
- an explanation of how the trend in inventory turnover could **positively** affect the ability of Sweetworld to pay current debt, even though the current ratio fell in 2014.

The current ratio of 1.89:1 tells Brianna that her business, Sweetworld has \$1.89 of Current assets to pay for every \$1 of Current liabilities in 2014. This is satisfactory because it means that Sweetworld will be able to meet its short term debts as fall due in next accounting period //

The increasing trend in inventory turnover positively affects Sweetworld's ability in paying current debts even though it fell because it means Sweetworld is ^{Selling more} ~~turning~~ ^{into cash} inventory ~~into~~ ^{or} cash quickly. ~~(Since Sweetworld is a trading entity - less likely~~

→ or Accounts Receivable. - Sweetworld is selling more inventory.

The current ratio fell because of decrease in current assets - bank and inventory. But ~~AR~~ Accounts Receivable increased

which means Sweetworld is making more credit sales. As debtors pay off accounts, from buying inventory, the inventory turnover goes up and bank will also increase. So ~~regardless~~

Increase in inventory turnover does have positive consequences of increase in cash whether its Accounts Receivable paying accounts off or cash sales. ~~The~~ Accounts Receivable and Bank are current assets which means this increases ability to pay current debts in 2014.

E8

Extra space if required.
Write the question number(s) if applicable.

QUESTION
NUMBER

ASSESSOR'S
USE ONLY

2.(b) This decreasing net profit percentage trend is unlikely to continue in 2015 because of the increasing sales trend. The sales is increasing steadily as seen from being at \$400 000 in 2013 to \$480 000 in 2014. Brianna has kept ^{good} control of her expenses now as she states "I won't have to hire any more office staff in the next few years..." Therefore, her expenses are unlikely to increase by a large amount. The expenses of Sweetworld may go up by a small amount but this is no issue because of the forecast of the growing sales trend. Therefore, the net profit percentage trend is predicted to increase in 2015. //

High Excellence exemplar for 91177 2014			Total score	32
Q	Grade score	Annotation		
1	E8	<ul style="list-style-type: none"> • Correct calculations with working shown in case of arithmetical errors • Explains the mark up percentage in context and how the same markup percentage has been applied to a lower cost • Explains the reduced selling price is a result of lower cost and same markup and links this to sales growth as sales increased from \$400 000 in 2013 to \$480 000 in 2014 • Links all of above to increased profit from \$55 000 in 2013 to \$59 000 in 2014. 		
2	E8	<ul style="list-style-type: none"> • Correct calculations and correct rounding • Net profit percentage explained correctly • Justified the reason for decreased Net Profit % was a result of hiring a new administration person and explained the affect of this with reference to resource • Justified that the finance cost decreased because <i>Sweetworld</i> paid on the loan using dollar reference • Explained how reducing finance cost percentage offset the increasing administrative expense percentage • Justified the decreasing Net Profit trend is unlikely to continue because of steady forecast sales growth 		
3	E8	<ul style="list-style-type: none"> • Correct calculations • Explains Equity Ratio correctly in context • Justifies the improved Equity Ratio is a result of cashing in the investment to reduce the loan and uses dollar amounts • Justifies that the improved Equity Ratio will benefit Brianna if she wants to expand, as it makes <i>Sweetworld</i> appear less risky to the banks who will lend them the money for expansion 		
4	E8	<ul style="list-style-type: none"> • Answers both parts of the question and links the increased inventory turnover to increased/improved liquidity through more sales which increase bank in part (b) • Explains the inventory turnover trend in context and refers to the resource material which states Brianna prides herself on the freshness of her fudge so this inventory turnover of 30times per year minimum is expected. • In part (b) Explains the current ratio correctly in context • Justifies how although the current ratio has decreased, <i>Sweetworld</i> need not be concerned because of the increased inventory turnover • Makes reference to the current ratio and how it has decreased from 2013 - 2014 		